SA 2022 BUDGET REVIEW

The maiden 2022 Budget for Finance Minister Enoch Godongwana was a welcome step forward on the very challenging path of fiscal consolidation. The Budget provides further evidence that the almost decade long cycle of sovereign credit rating downgrades is moving into the rear-view mirror if we continue upon the current path. We look to the government to continue to take the necessary steps to revitalise the economy following a decade of economic stagnation and the unprecedented COVID-19 pandemic. These include implementing structural reform plans, tackling corruption, consolidating the public finances and stabilising the State Owned Enterprises (SOEs).

COMMODITY REBOUND PROVIDES A TONIC

Since the November 2021 Medium Term Budget Policy Statement (MTBPS), National Treasury was able to declare in the February 2022 Budget that its tax revenue collections had overshot its previous projections by R61.7bn or 1.1% of GDP. Compared to a year earlier in the February 2021 Budget, the revenue overshoot is a staggering R182bn or 2.9% of GDP.

The stellar revenue performance is largely the result of a significant rise in commodity prices over the past year and is largely reflected in the corporate tax paid by mining companies. Minister Godongwana rightly noted that the major improvement in tax revenue collection could not be considered the result of a permanent improvement in underlying economic activity and that, at some point, falling commodity prices could place the public purse back under pressure. As a result, the main focus of the Budget was twofold: firstly to continue on a path of fiscal consolidation that had been laid out by his predecessor, Tito Mboweni, and secondly, using the unexpectedly strong tax revenue collection to help relieve pressure on households and businesses that are struggling with the after effects of the COVID-19 pandemic whilst facing rapid increases in the cost of living.

GIVING MUCH NEEDED RELIEF

Starting with the 'feel good' side of Budget 2022, the government provided the economy with R5.2bn in tax relief.

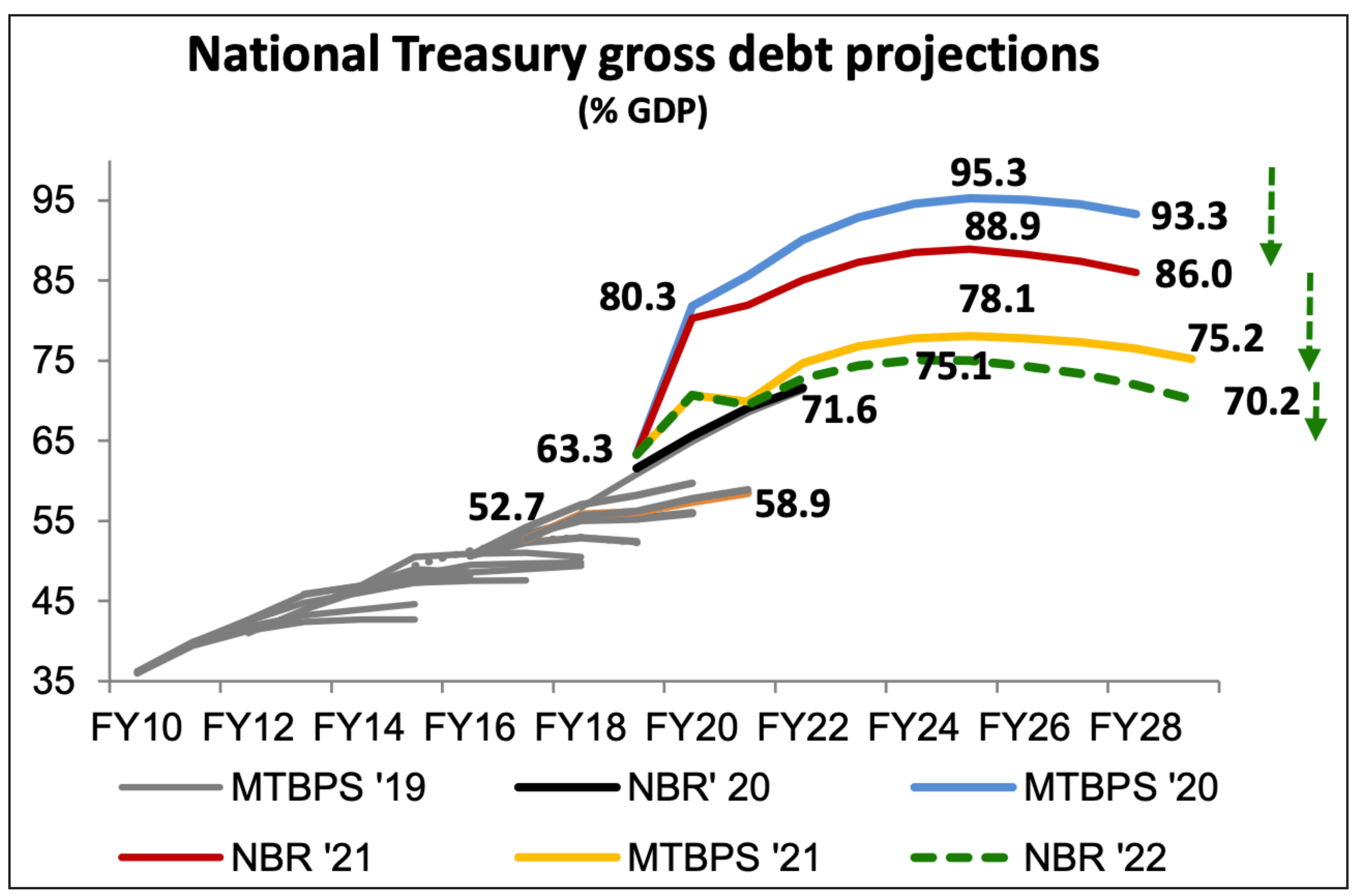
- Following through on Mboweni's pledge a year ago, the corporate tax rate was lowered by 1ppt to 27% at a cost of R2.6bn to the fiscus.
- The Treasury also provided an effective tax break to individual taxpayers by increasing the personal income tax brackets in FY2022/23 by 4.5%, in line with inflation. This raises the annual tax-free threshold from R87,300 in FY2021/22 to R91,250 in FY2022/23. It also helps prevent 'bracket creep', the process whereby annual salary increases can push some individuals into higher income tax brackets. By adjusting income tax brackets higher, National Treasury effectively sacrificed R13.5bn in future revenue that could have otherwise been raised had the income tax brackets remained unchanged. Furthermore, medical tax credits will increase from R332 to R347 per month for the first two members, and from R224 to R234 per month for additional members.
- For the first time since 1990, the government also left the general fuel levy unchanged at R3.85/l as well as the Road Accident Fund levy, at R2.18/l, which cost the fiscus R3.5bn.

In addition, with many South African citizens in significant economic distress, the 2022 Budget also extended the R350 per month special COVID-19 social relief of distress grant for 12 months at a cost of R44bn.

FISCAL CONSOLIDATION ON TRACK

The COVID-19 economic shock in 2020 brought the sustainability of the public finances into question. With the public debt-share threatening to rise above 100%, it was clear decisive action was needed. In the 2021 Budget last year, National Treasury took difficult steps to rein in public expenditure, both in terms of the public sector wage bill and also the cost of the Social Grant system. However, it has been the rebound in commodity prices over this period, that has helped to flatter the public finance metrics and in doing so substantially reduce the risk of an unsustainable growth in national debt.

At the time of the October 2020 MTBPS, gross national debt was expected to peak at 95.3% of GDP in FY2026/27. Fast forward to the February 2022 Budget, the peak in debt is now only projected at 75.1% in FY2024/25, a major 20 percentage point reduction.



SOURCE: NATIONAL TREASURY BUDGET 2022

Due credit must be given to Minister Godognwana who resisted the temptation to significantly increase expenditures despite having an extra R180bn in revenue at his disposal. This is a positive signal of fiscal prudence despite huge pressure on government to increase expenditure on social delivery. The Minister noted, for instance, that implementing a permanent Basic Income Grant would require increases in tax rates. By maintaining expenditure restraint, the budget deficit is expected to fall over the coming few years from -6.0% of GDP in FY2022/23 deficit to reach -4.2% in FY2024/25.

That said, there are still major risks that the government could overshoot its expenditure projections. For instance, the Constitutional Court has still to rule of the legality of the government suspending the third year of the 3-year public sector wage agreement (2018-2020) which would have seen wages rise by CPI plus 1%. The Labour Appeal Court has already ruled that this decision was rational given the financial pressures on the fiscus. However, should the government lose the Constitutional Court case, this would add around R38.5bn onto government expenditure. As it stands, the public sector wage bill absorbs around 32% of all government expenditure, crowding out investment spending.

REFORMS GATHER MOMENTUM

A number of key reform drives were highlighted in the Budget which, over time, will contribute significantly to improving the outlook for economic growth and employment.

On the energy front, significant private sector projects are in the pipeline which will add considerably to the country's generation capacity and ease pressure on Eskom. The government has gazetted three key energy projects: the Risk Mitigation Power Purchase Procurement Programme, the Small Independent Power Producer Programme and the Embedded Generation Investment Programme. A total of 4.6 gigawatts (GW) of new generation capacity worth an estimated R90bn is expected to become available during FY2022/23 with the private sector providing the investment capital. This would augment Eskom's 44GW capacity by around 10%.

The fifth bid window of the Renewable Energy Independent Power Producer Programme for 1.6GW of onshore wind and 1.0GW of solar photovoltaic (PV) power was launched in April 2021. It is expected that the projects will be operational in the third and fourth quarters of 2023. The sixth bid window for another 2.6GW of renewables is expected to be put to tender by June 2022.

Following a decade of delay, ICASA has announced that the auctioning of high frequency digital spectrum will take place from 10th March. Once allocated, the new spectrum will contribute to faster download speeds and lower user costs.

The government is also embarking on initiatives to improve port efficiencies and expand rail capacity. The government announced last year the establishment of the National Port Authority as an independent subsidiary of Transnet. Meanwhile, the government is looking to enable 3rd party access to the freight rail sector later this year.

The National Treasury also continues to modernise South Africa's capital flows management framework. In the February 2022 Budget, the offshore allowances for institutional investors (insurance, retirement and savings funds) was harmonised to 45%, inclusive of the 10% Africa allowance. The previous maximum limits were set at 30% or 40% for different categories of investors.

Finally, following two rounds of public consultations, the government will, in March 2022, gazette amendments to Regulation 28 of the Pension Funds Act which will enable retirement funds to increase their exposure to infrastructure investment thereby improving the supply of financing for key capital projects.

TOWARDS A MORE PROSPEROUS FUTURE

Success in stabilising debt and controlling the rise in borrowing costs will improve South Africa's attractiveness as an investment destination. The upturn in the commodity cycle has cushioned South Africa's economy just at the right time. However, now is still the time for determined action and self-sacrifice. There are reasons to be hopeful. A number of critical policy interventions are now in place to revitalise South Africa, from the Presidency's Recovery and Infrastructure Investment Plans, particularly in the energy sector, as well as National Treasury's fiscal consolidation roadmap. It is critical that the National Prosecution Authority pursues those responsible for the corruption which has undermined service delivery. During these challenging times, we at Oasis will continue to be steadfastly committed in delivering value to all our clients.

BUDGET 2022 TAX THRESHOLDS

In the February 2022 Budget, personal income tax brackets were adjusted in line with the expected inflation rate of 4.5% for the coming financial year.

For your convenience, we have provided the new income tax brackets for the 2022/23 financial year in the table below which includes the comparison to FY2021/22.

The annual tax-free threshold for a person under the age of 65 will increase to R91 250 from R87 300.

2021/22		2022/23	
TAXABLE INCOME	**RATES OF TAX**	**TAXABLE INCOME**	**RATES OF TAX**
R0- R216 200 R216 201 - R337 800	18% of each R1 R38 916 + 26% of mount above R216 200	R0- R226 000 R226 001 - R353 100	18% of each R1 R40 680 + 26% of amount above R226 200
R337 801 - R467 500	R70 532 +31% of amount above R377 800	R353 101 - R488 700	R73 726 +31% of amount above R353 100
R467 501 - R613 600	R110 739 + 36% of amount above R467 500	R488 701 - R641 400	R115 762 +36% o f amount above R488 700
R613 601 - R782 200	R163 335 + 39% of amount above R782 200	R641 401 - R817 600	R170 734 + 39% of amount above R641 400
R782 201 -R1 656 600	R229 089 + 41% of amount above R782 200	R817 601 -R1 731 600	R239 452 + 41% of amount above R817 600
R1 656 601 and above	R587 593 +45% of the amount above R1 656 600	R1 731 601 and above	R614 192 + 45% of the amount above R1 731 600
REBATES		**REBATES**	
Primary	R15 714	Primary	R16 425
Secondary	R8 613	Secondary	R9 000
Tertiary	R2 871	Tertiary	R2 997
TAX THRESHOLD		**TAX THRESHOLD**	
Below age 65	R87 300	Below age 65	R91 250
Age 65 and over	R135 150	Age 65 and over	R141 250
Age 75 and over	R151 100	Age 75 and over	R157 900

SOURCE: NATIONAL TREASURY BUDGET 2022